

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
June 05, 2008 Through June 03, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
LETCHER COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
June 05, 2008 Through June 03, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Letcher County Sheriff for the period June 05, 2008 through June 03, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$6,215,860 for the districts for 2008 taxes, retaining commissions of \$240,628 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,992,746 to the districts for 2008 taxes. Refunds of \$19,809 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Collect Refunds Due From Taxing Districts
- The Sheriff Should Collect Unbilled Common School Taxes
- The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the Letcher County Sheriff's Settlement - 2008 Taxes for the period June 05, 2008 through June 03, 2009. This tax settlement is the responsibility of the Letcher County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Letcher County Sheriff's taxes charged, credited, and paid for the period June 05, 2008 through June 03, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 30, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Collect Refunds Due From Taxing Districts
- The Sheriff Should Collect Unbilled Common School Taxes
- The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

November 30, 2009

LETCHER COUNTY
DANNY WEBB, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period June 05, 2008 Through June 03, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 413,992	\$ 700,187	\$ 1,756,327	\$ 439,192
Tangible Personal Property	127,512	282,299	583,289	478,405
Fire Protection	4,237			
Increases Through Exonerations	48	91	202	40
Franchise Taxes - Current Year	57,396	123,455	265,250	
Franchise Taxes - Prior Year	5,287	7,472	21,172	
Additional Billings	325	569	1,157	615
Oil and Gas Property Taxes	164,975	279,024	657,032	175,017
Limestone, Sand and Mineral Reserves	1,397	2,363	5,564	1,482
Penalties	6,409	10,816	26,872	6,842
Adjusted to Sheriff's Receipt	(166)	(120)	(244)	(70)
Gross Chargeable to Sheriff	<u>781,412</u>	<u>1,406,156</u>	<u>3,316,621</u>	<u>1,101,523</u>
<u>Credits</u>				
Exonerations	5,469	9,412	23,622	7,240
Discounts	11,497	20,971	47,835	16,688
Delinquents:				
Real Estate	20,785	34,981	91,098	21,942
Tangible Personal Property	528	1,169	2,113	1,855
Unbilled Tangible Taxes			60,572	
Franchise Taxes	<u>1,699</u>	<u>2,848</u>	<u>7,528</u>	
Total Credits	<u>39,978</u>	<u>69,381</u>	<u>232,768</u>	<u>47,725</u>
Taxes Collected	741,434	1,336,775	3,083,853	1,053,798
Less: Commissions (a)	<u>31,798</u>	<u>56,813</u>	<u>106,943</u>	<u>45,074</u>
Taxes Due	709,636	1,279,962	2,976,910	1,008,724
Taxes Paid	711,351	1,282,292	2,980,269	1,018,834
Refunds (Current and Prior Year)	<u>298</u>	<u>493</u>	<u>1,192</u>	<u>312</u>
Refunds Due Sheriff		(b)	(c)	
as of Completion of Audit	<u>\$ (2,013)</u>	<u>\$ (2,823)</u>	<u>\$ (4,551)</u>	<u>\$ (10,422)</u>

(a), (b), and (c) on next page.

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY
 DANNY WEBB, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period June 05, 2008 Through June 03, 2009
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	3,122,007
4% on	\$	1,442,718
3% on	\$	1,641,135

(b) Special Taxing Districts:

Library District	\$	(1,147)
Health District		(755)
Extension District		(740)
Soil District		(181)
		<hr/>

(Refunds Due Sheriff)	\$	<u>(2,823)</u>
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(c) School Taxing Districts:

Common School	\$	(2,153)
Graded School		(2,398)
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(Refunds Due Sheriff)	\$	<u>(4,551)</u>
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LETCHER COUNTY
NOTES TO FINANCIAL STATEMENT

June 03, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Letcher County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY
NOTES TO THE FINANCIAL STATEMENT
June 03, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Letcher County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 03, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 01, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2008 through June 03, 2009.

Note 4. Interest Income

The Letcher County Sheriff earned \$9,242 as interest income on 2008 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Letcher County Sheriff collected \$44,771 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Letcher County Sheriff collected \$3,110 of advertising costs and \$4,120 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). Advertising fees were used to operate the Sheriff's office. As of November 30, 2009, the Sheriff owed \$3,110 in advertising costs to the county.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Ward, Letcher County Judge/Executive
Honorable Danny Webb, Letcher County Sheriff
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Letcher County Sheriff's Settlement - 2008 Taxes for the period June 05, 2008 through June 03, 2009, and have issued our report thereon dated November 30, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Collect Refunds Due From Taxing Districts
- The Sheriff Should Collect Unbilled Common School Taxes



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's Settlement - 2008 Taxes for the period June 05, 2008 through June 03, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

The Letcher County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 30, 2009

COMMENTS AND RECOMMENDATIONS

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period June 05, 2008 Through June 03, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Batch And Process Tax Bills On A Daily Basis

Our audit procedures revealed the Sheriff did not batch and process tax bills on a daily basis. The Sheriff did batch tax bills and batches were processed. However, batches contained bills paid on multiple dates reflecting activity for several days. Batch processing should reflect daily activity and taxes collected should be deposited intact daily. By not batching and processing tax bills on a daily basis, the prevention or detection of errors in a timely manner is more difficult. We recommend the Sheriff batch and process tax bills on a daily basis.

Sheriff's Response: We will implement a procedure to batch and process tax bills on a daily basis.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. A significant deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts and prepares and records all checks. In addition, the bookkeeper prepares all bank reconciliations. Good internal controls dictate that the same employee should not be handling, recording, and reconciling cash receipts. Furthermore, authorized check signers should be independent of receiving cash and preparing checks. A material weakness occurs when a significant deficiency, or combination of significant deficiencies, results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. The sheriff's office failed to prepare reconciliations of taxes collected to taxes paid. We noted errors in tax collections which could have been prevented or detected if the sheriff's office had prepared reconciliations of taxes collected to taxes paid.

If the Sheriff cannot segregate these duties, compensating controls such as the Sheriff recounting daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should also review reconciliations of taxes collected to taxes paid. The Sheriff should document these reviews by initialing and dating the bank deposit, daily checkout sheet, receipts ledger, and reconciliations. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this significant deficiency.

Sheriff's Response: We are unable to segregate duties because of lack of funds for employees. However, we have implemented procedures that help to monitor the financial transactions by involving the Sheriff review.

LETCHER COUNTY
DANNY WEBB, SHERIFF
COMMENTS AND RECOMMENDATIONS
For the Period June 05, 2008 Through June 03, 2009
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES: (Continued)

The Sheriff Should Collect Refunds Due From Taxing Districts

Our audit revealed refunds totaling \$19,809 due from the taxing districts. These refunds are due primarily to errors made in reporting tax collections.

During the audit, we noted the following:

- The Sheriff failed to recognize an overpayment of \$10,419 to the State, resulting in a refund of \$10,422 due from the State.
- The Sheriff failed to recognize errors on franchise tax bills prepared by the Clerk, resulting in two franchise taxpayers overpaying taxes in the amount of \$3,432. The overpayments were subsequently paid to the taxing districts, resulting in refunds due from the taxing districts.
- School commissions in the amount of \$2,550 were not collected from the school districts, resulting in additional refunds due from the school districts.
- Refunds due from the districts include \$10,422 due from State, \$2,013 due from the County, \$2,153 due from the Common School, \$2,398 due from the Graded School, \$1,147 due from the Library district, \$755 due from the Health district, \$740 due from the Extension district and \$181 due from the Soil district.

Errors in reporting tax collections could have been prevented or detected if the Sheriff's office had prepared reconciliations of taxes collected to taxes paid. Errors on franchise tax bills could be detected by comparing assessment sheets to the actual tax bills to assure that the proper assessments were used. We recommend the Sheriff's office implement procedures to prevent or detect errors in tax collections. We also recommend the Sheriff collect refunds due from districts and pay refunds due to franchise taxpayers.

Sheriff's Response: Procedures will be implemented to assure compliance in the future. Refunds will be paid.

The Sheriff Should Collect Unbilled Common School Taxes

Tax bills were printed using an incorrect tangible tax rate for the common school district. Instead of using the tangible tax rate, the real estate tax rate was used to compute tangible taxes. Since the common school tangible tax rate is higher than the real estate tax rate, taxes were understated by \$60,572, resulting in unbilled common school taxes. This error could have been detected if the Sheriff's office had compared approved tax rates to those printed on the tax bills or if the Sheriff's office had compared the official receipt signed by the Sheriff to the total amount of all tax bills. We recommend the Sheriff consult with the Department of Revenue, County Attorney, and School Board for guidance on correcting the school tax bills. We also recommend the Sheriff's office develop procedures to assure tax bills are printed correctly prior to mailing to taxpayers.

Sheriff's Response: We will be meeting with the people involved in the near future. We will be developing procedures to check the rates along with other departments to assure this does not happen in the future.

